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TO RUEHC/SECSTATE WASHDC PRIORITY 4681  
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RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS NAIROBI 000472

SIPDIS

SENSITIVE

DEPT FOR AF/E, AF/EPS, EEB/IFD/OMA  
DEPT ALSO PASS TO DOT FOR CONNIE HUNTER  
DEPT ALSO PASS TO USTR FOR BILL JACKSON  
DEPT ALSO PASS TO DEPT OF LABOR FOR SUDHA HALEY, PATRICK WHITE AND  
MAUREEN PETTIS  
TREASURY FOR VIRGINIA BRANDON  
DEPT ALSO PASS TO USAID/EA  
DEPT ALSO PASS TO USITC FOR RALPH WATKINS

SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EAID](#) [ELAB](#) [ETRD](#) [EIND](#) [EINV](#) [KE](#)  
SUBJECT: KENYA PRIVATE SECTOR BRIEFS FOREIGN MISSIONS

REFS: A) Nairobi 383, B) NAIROBI 353, C) NAIROBI 336

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11. (SBU) Summary: The Kenya Private Sector Alliance met with foreign mission reps on February 6 to brief them on the February 5 CEOs statement to politicians, and to ask the European missions to clarify their public position on aid cutoffs and to revise their travel advisories. They confirmed their estimate that the Kenyan economy could lose \$4.71 billion and contract in 2008, absent a swift political settlement and return to normalcy. The European Missions said decisions on assistance will depend on the outcome of the talks, and that stability is needed before they would revise their travel advisories. Both groups agreed the Annan-mediated talks must reach a successful result soon. End summary.

#### Private Sector Support Annan-Mediated Talks

12. (SBU) The Kenya Private Sector Alliance (KEPSA) met with foreign mission officials on February 6 to brief them on the February 5 CEOs statement to the politicians (ref A), and discuss aid programs and travel advisories. KEPSA representatives stressed the private sector's complete and unified support for the PNU-ODM negotiations mediated by Kofi Annan, and that the talks must not fail. The private sector does not back either side, KEPSA reps emphasized, but rather puts Kenya first. The violence is no longer about the election, they contended, but is based on tribal and land issues, and aims to inflict pain. (Note: The organization's press statement called for all leaders, public and private, from the top down, to make clear public statements at the grass roots level calling for an end to violence. End Note.)

#### Are You Cutting Off Aid?

13. (SBU) The KEPSA reps asked that Foreign Missions provide more public clarity on their policies on assistance to Kenya. Many Kenyans, they suggested, have the misimpression the donors are cutting off aid and abandoning them, contributing to the misery of poor Kenyans and making the politicians less likely to heed the advice of donors..

#### Aid Decisions Pending

14. (SBU) In response, Danish Ambassador Bo Jenson, who also

co-chairs the local Donor Coordination Group, commended the private sector for its strong public statement of support for Kofi Annan and the negotiations. He stressed that no donor has taken a definite position on long term assistance levels. Donors are waiting for the outcome of the talks before making decisions. Until then, they cannot do business as usual. Mission staffs, he added, are very busy on humanitarian programs, giving further impetus to a go-slow approach to existing or new long-term development programs.

15. (SBU) The Swedish ambassador urged the private sector to maintain pressure on the political leaders by providing information on the urgency of the country's economic and humanitarian crises. KEPSA said it has have met with both President Mwai Kibaki and ODM leader Raila Odinga and will seek more meetings. For the private sector as well, it is not business as usual.

#### Economic Damage Remains Severe

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16. (SBU) Reports from KEPSA members show manufacturing activity was down an average of 50-55% in January, with some firms down 70-75%. Exporters are still operating, but with disruptions. They told the foreign mission reps that the government should use whatever force is needed to keep the roads open so they can supply goods to the Northern Corridor countries. The government is responsible for providing security and clearing militias and opportunistic criminals from the roads.

17. (U) A member of KEPSA, the Kenya Association of Manufacturers (KAM) estimates losses to the economy as follows:

- Property destruction: Ksh 16 billion (\$228 million) and rising.
- Lost business in January: Operations down 40-50%, Ksh 88 billion (\$1.26 billion) in lost production, Ksh 21 billion (\$300 million) lost tax revenue to GOK.
- 250,000 workers laid off or on paid leave in the formal sector, over 1 million jobs estimated lost in the informal sector.
- Forecast business will be down 20% in the first half of 2008, and down 10% in the second half; loss to the economy would be Ksh 220 billion (\$3.14 billion) and Ksh 110 billion (\$1.57 billion) respectively for annual loss of Ksh 330 billion (\$4.71 billion), which means economic contraction, not growth, in 2008.
- Tax is 24% of GDP, so tax revenues would decline Ksh 80 billion (\$1.14 billion).

KAM nevertheless remains hopeful. If the situation is resolved quickly, and transportation to western Kenya and the Northern Corridor is restored, it believes the damage to the economy will be limited.

#### Tourism Sector Proactive Recovery Measures

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18. (U) The Kenya Tourism Federation (KTF) rep said tourism is down 85-90%. In 2007, tourism earned Ksh 65 billion (\$1 billion) and attracted over one million tourists for the first time in Kenya's history (ref C). It paid Ksh 10.4 billion (about \$148 million) in VAT to the government in 2007, and an unknown level of income tax, most of which, he noted, would be lost in the first quarter. However, cancellations are only until June, and all facilities are intact. Tourism could bounce back quickly in his estimation. Although media images were a factor, KTF said it was the European travel advisories that were killing tourism. The Kenya Tourism Board (KTB) told EconOff on February 8 that it expects only 27,000

visitors in the first quarter, down 94% from the agency's original forecast of 350,000. KTB announced on February 10 a paltry 8,000 tourist arrivals in January, and predicted earnings in the first quarter of only Sh8.4 billion (\$120 million), rather than the Sh21 billion (\$300 million) predicted before the crisis.

19. (SBU) Public and private tourism industry stakeholders have formed a task force that has been meeting senior politicians face to face to highlight the impact of the crisis on the sector and its stakeholders. The media committee encouraged journalists to interview those tourists still here, to demonstrate the resort areas are safe. It also urged the media to move the violence off the front page, not to highlight isolated incidents of violence, and to cover stories of recovery as well as loss. KTF issues daily security updates to the industry and media to ensure that any

outbreaks are noted, and tour operators warned to steer clear. The updates show the violence is well away from most tourist routes. The Ministry of Foreign Affairs instructed Kenyan Embassies to brief source country governments and lobby for revision of the travel advisories.

#### Stability First, Advisories Second

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¶10. (SBU) The KTF rep accordingly urged the European governments to revise their travel advisories so that they warn against travel only to western Kenya, and not against Kenya as a whole, as the UK and U.S. have done. He claimed that, if the advisories were limited, travelers' insurance policies, including life and health, would remain valid for the other parts of Kenya, removing a critical barrier to renewed bookings. Ambassador Jensen responded that source countries must have more certainty that violence has stopped and will not restart in a few weeks before lifting the advisories. He appreciated the efforts of tour operators to keep their customers safe, but pointed out that some tourists come independently, and more stability is needed before revising the advisories. Officials from the other missions echoed this theme.

#### Comment

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¶11. (SBU) Despite the tension on the travel advisories, the private sector and the Missions are in complete agreement that the Kofi Annan-mediated negotiations are the only possible solution, and that both will continue to coordinate their efforts to push the government and ODM to reach an agreement as soon as possible.

RANNEBERGER